

ACCOUNTING PROCEDURE

TOPIC: Section 12--Travel 1.5	EFFECTIVE DATE: 10/14/87
TITLE: Sales Tax Status of State Employees: Purchase of Meals, Lodging and Other Costs While Traveling on State Business	REVISION DATE: 8/29/03
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**BACKGROUND**

The Secretary's Office wants organizations to reduce unnecessary employee travel costs wherever possible. If these guidelines are followed, employees in travel status should be exempt from the state and county sales taxes as well as the local room taxes.

Due to changes in the sales tax rules by the Wisconsin Department of Revenue, employees that travel on state business can be exempt from payment of state sales tax on meals and lodging if the conditions identified later in this procedure are met.

The Wisconsin sales and use tax law in s. 77.54 (9a), Stats., provides an exemption for sales of tangible personal property and services to the State of Wisconsin, or any agency thereof, as well as other governmental agencies and nonprofit organizations.

The transaction is exempt from the Wisconsin sales and use tax if:

- the retailer of meals or lodging receives a purchase order from the state agency before the sale is completed; and
- the seller bills the state agency the amount due, and this amount is subsequently paid by the state agency directly to the retailer.

In addition, the Wisconsin Department of Revenue (DOR) has issued a sales and use tax report indicating that under certain conditions, state employees may purchase meals and lodging without having to pay sales tax. The state has taken the position that an employee who pays a hotel/motel bill with his/her own funds, while on state business, is exempt from the state and county sales taxes as well as the local room taxes. This is under the condition that guidelines established by the Wisconsin Department of Revenue for exemption of taxes are met. These conditions (guidelines) are identified in the following procedures.

Each organization should evaluate its existing internal travel procedures in regard to the extra effort needed to procure meals and lodging directly versus the extra cost--tax--of reimbursing the employees. This evaluation may need to be done on a case by case basis.

With the re-issue of this procedure, the Secretary's Office is stressing that each division should take steps to make sure that all employees who travel try to obtain this tax exemption.

## PROCEDURES

In order for a sale, to a state employee, to be exempt from Wisconsin sales and use tax, all of the following conditions must occur:

1. The vendor (e.g., a motel or restaurant) must issue the billing or invoice for the item purchased in the name of the State of Wisconsin or a state agency.
2. The vendor receives from the state agency a purchase order or similar written document (e.g., a letter or card of authorization). See attached copy of an exemption letter and a exemption card with tax exemption information on them. Divisions should use the letter example option to create their own tax exemption document. The Department's Forms Office created a card entitled "Wisconsin Sales and Use Tax Exemption Certificate". Divisions wishing to utilize the card option should contact the Department's Forms Center to request the card. Request form HFS-60 (03/02).
3. The vendor keeps a copy of the documents referenced in conditions (1) and (2) above, to substantiate that the sale was exempt from Wisconsin sales and use tax.

If all three conditions are met, the sale is exempt from Wisconsin sales and use tax, regardless of whether the state, or its employee, pays the vendor.

The letter or card of authorization under condition (2) above should identify the employee by name, the type(s) of purchases authorized (e.g., meals and/or lodging), and the occasion or period of time the authorization remains valid. The authorization letter or card need not name a specific vendor, although agencies in some circumstances may wish to do so. The period of time the authorization remains valid would depend upon the employee using the letter and the policy of the agency issuing the letter. If an employee travels often, the period of authorization may extend up to one year (but should not exceed a year). If an employee only travels occasionally, the authorization letter or card may be issued for the specific period of time covering a particular trip.

Since a vendor will retain a copy of the authorization letter or card, the employee using the letter may be given a supply of the authorization letters or cards at the beginning of a trip, or be allowed to make photocopies as necessary.

The following examples illustrate situations under which sales may be taxable or exempt:

Example 1. An employee of the State of Wisconsin purchased a meal and lodging in a motel. The billing is made in the employee's name and the employee pays the bill out of his/her own funds. The employee is subsequently reimbursed by the State of Wisconsin for the amount of the meal and lodging.

Tax Status: The above sale is taxable because it is a sale to the employee, rather than to the State of Wisconsin. These sales would still be taxable even if the employee had submitted a letter from the employing agency indicating that it would ultimately be responsible for the costs of the meal and lodging.

Example 2. An employee from the State of Wisconsin, when purchasing a meal and lodging, submits a letter to the vendor from his or her

employing agency indicating that the employee is on state business, and the state is authorizing the employee to purchase meals and lodging relating to such state business. This letter is placed in the vendors' files. The vendor makes out the bill in the name of the State of Wisconsin, or the respective agency. The employee pays the bill with his or her own funds and is subsequently reimbursed by the state.

Tax Status: This is an exempt sale to the State of Wisconsin under s.77.54 (9a), Stats, and the employee does not pay the sales tax to the vendor.

#### **ATTACHMENTS**

1. Sample Exemption Letter
2. Sample Exemption Card

#### **REFERENCES**

Wisconsin Statutes, section 77.54 (9a)  
<http://www.legis.state.wi.us/rsb/stats.html>  
Subsection (4) (d) of the *Administrative Rule Tax 11.05*, "Governmental Units"  
DHFS APP **Section 13-Tax 6.0** (Sales Tax Exempt Numbers)

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(Current Date)

SAMPLE      SAMPLE      SAMPLE      SAMPLE      SAMPLE      SAMPLE

Dear Hotel/Motel or Restaurant Manager:

This is to inform you that \_\_\_\_\_, an employee of the Department of Health and Family Services, is authorized to make purchases of lodging and meals, exempt from state, county sales and local room taxes. This authorization is effective during the period \_\_\_\_\_ through \_\_\_\_\_, but only while this employee is on official state business.

Sales of lodging and meals to the Department of Health and Family Services are exempt from Wisconsin state, county sales and local room taxes per (sec. 77.54(9a). Wis. Stats.). The DHFS WI Certificate of Tax Exempt Status Number is ES40676. According to the Wisconsin Department of Revenue, your sales of lodging and meals to state employees will be exempt from taxes if:

- 1) You issue the billing or invoice (folio) for the lodging or meals in the name of the state agency, (e.g. Department of Health and Family Services, C/O (state employee name), home address), and
- 2) You retain a copy of this letter to substantiate that the sales was exempt from sales and local room taxes.

Only the amount of the billing, which is reimbursable by the state agency, is exempt from sales and local room taxes. If your billing exceeds the state reimbursable amounts shown below, the portion exceeding such amounts is subject to sales and local room taxes.

The state reimbursement maximums (effective July 1, 2003) for lodging and meals for each employee are as follows.

Hotel and Motel Lodging - is \$62.00, except for Milwaukee, Racine, and Waukesha Counties where the maximum rate is \$72.00

<u>Meals</u> (including tips)	- Breakfast	\$8.00
	- Lunch	9.00
	- Dinner	17.00

Authorized Signature:

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Title)

\_\_\_\_\_  
(Organization)

SAMPLE      SAMPLE      SAMPLE      SAMPLE      SAMPLEFRONT OF CARD

Wisconsin Sales and Use Tax Exemption Certificate  
 Tax Exempt Entity: Department of Health and Family Services

This is to inform you that \_\_\_\_\_, an employee of the Department of Health and Family Services, is authorized to make purchases of lodging and meals, exempt from Wisconsin state, county and local taxes. This authorization is effective during the period \_\_\_\_\_ through \_\_\_\_\_, but only while this employee is on official state business. This exemption is provided for under (sec. 77.54(9a). Wis. Stats.). The DHFS WI Certificate of Tax Exempt Status Number is ES40676.

Authorized

Signature \_\_\_\_\_ HFS-60 (03/02)

BACK OF CARD

The Wisconsin Department of Revenue's March 1988 Tax Report lists the following requirements for sales to governmental agencies to be exempt from Wisconsin sales and use tax:

- 1) You issue the billing or invoice (*folio*) for the lodging or meals in the name of the state agency (*include employee name*) and
- 2) You retain a copy of this card to substantiate that the sales was exempt from sales and local room taxes.

Only the amount of the billing, which is reimbursable by the state agency, is exempt from sales and local room taxes. If your billing exceeds the state reimbursable amounts, the portion exceeding such amounts is subject to all taxes.